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DEPARTMENT FOR EUR DAS MERKEL AND EUR/CE; PLEASE PASS TO  
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SUBJECT: HUNGARY'S RUSSIA POLICY: RETHINKING ... OR  
REPHRASING?

Classified By: A/DCM ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

¶1. (C) Throughout the course of recent briefings, GoH officials have changed their tune slightly with regard to Hungary's Russia policy. Increasingly, their approach appears to be one which admits Hungary's economic interest in expanding trade but which underscores Budapest's enduring commitment to the West. This attempt to distinguish between trading partners and strategic allies represents a new approach but not necessarily a real change, especially when the traded commodity is energy. Ultimately, only Hungary's actions will demonstrate whether this is a rhetorical or a practical shift in its policy.

"IMPLEMENTING OUR (ECONOMIC) INTERESTS"

¶2. (C) In a meeting with Ambassador Foley July 15, newly-installed MFA State Secretary Gyorgy Giljan began his overview of Hungary's Russia policy with the frank statement that "our focus is on implementing our interests ) especially those of our business community." Exports to Russia have increased seven-fold within the past five years, he continued, now representing six percent of Hungary's total export volume with an estimated value of USD 3 billion. But Hungary's trade deficit remains enormous given its energy dependence on Russia, and business dealings with Russia tend to be concentrated in very select hands. Multi-millionaire businessman Sandor Demjan, for example, has pointedly announced that he will no longer invest in Hungary but rather only in Russia.

¶3. (C) But Hungarian officials have been at pains to distinguish between economic advantage and strategic commitment. Both MFA State Secretary Laszlo Varkonyi as well as the PM's Foreign and Security Policy Advisor, Karoly Banai, assure us that Hungary's place remains with the West. Giljan also professed few illusions about the situation in Russia, defining his "hope" that "Medvedev will be even a little bit more liberal than Putin."

SYMPATHY OR SUPPORT?

¶4. (C) That said, Hungary's position will likely be characterized by sympathy more than vocal support. Giljan noted that any criticism of Russia's record on democracy and human rights would be "within the context of the EU." Nor would Giljan be drawn on Medvedev's proposal to pursue "new security structures." He commented that Budapest could not comment on "something so vague," and deflected questions regarding developments in Russian oil supplies to the Czech Republic, referring to the issue as one about which he had "requested more information."

¶5. (C) Calculations regarding Russia could also cast a pall over broader security issues. MFA Political Director Szent-Ivanyi was typically cautious in meeting with Ambassador Foley on July 8, outlining Hungary's commitment to

continued engagement in Afghanistan and the Balkans but avoiding definitive commitments on NATO enlargement. Although he stated that Hungary believes in "no Russian vetoes," he hastened to add that Budapest must "recognize that this is a consensual decision" for the Alliance. Even though Banai tells us that the PM hopes to travel to Georgia later this year in an expression of support for their NATO aspirations, the current situation is troublesome. In principle, they support MAPs for both Georgia and Ukraine, but from a foreign policy perspective their stronger political and geographic ties to Ukraine make an invitation to Kyiv more important. Although our MFA contacts tell us they do not support the French/German position on the issue, Hungary may ) once again ) take no for an answer from other European capitals when it comes to a vote on MAP.

RUSSIA POLICY? NOT INVENTED HERE.

16. (C) We also note that many of our contacts in the foreign affairs hierarchy are playing dumb on Russia. Both Banai - who has made the economic argument in the past - and senior MFA officials have pointedly referred us to the Ministry of Finance as the lead on South Stream and perhaps, by extension, on Russia. Finance Minister Janos Veres noted this with a smile during a July 21 meeting with the Ambassador, remarking "where do things stand on South Stream? The key word is 'stand.' I haven't heard from Moscow in three months."

MAKING A DISTINCTION OR MAKING A DIFFERENCE?

17. (C) Comment: If true, Veres' comment should underscore

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the short-sighted nature of Hungary's strategy. Hungary's exports to Russia are still modest ) and far exceeded by both its exports to the EU as well as its energy imports. They may look significant to a government which knows that exports are leading a very sluggish economy (Veres openly noted that exports have increased by double-digit increments in each of the past 3 years), but they give Budapest little leverage in its bilateral relationship. Moreover, no matter how hard Hungarian officials try to separate foreign trade from foreign policy, Hungary remains vulnerable to pressure on a host of issues where Russian interests are served by Hungarian silence. It will be Hungary's actions on these fronts which determine whether the GoH is rethinking its Russia policy ( or merely rephrasing it. End Comment.

18. (C) Biographic Note: Recently arrived from the Prime Minister's Office, Giljan has also worked at the Ministry of Economy. Deliberate in presentation and thorough by reputation, he is responsible for commercial issues as well as Europe "from Croatia to Russia." He is also widely expected to move on to Moscow as Hungary's next Ambassador in the near future.  
Foley